



Missouri State Employees' Retirement System
A Component Unit of the State of Missouri

Summary Annual Financial Report
Fiscal Year Ended June 30, 2017



YEARS



1957

In 1956, an ambitious and enterprising group of state employees discussed the possibility of starting a retirement plan and asked their colleagues to contribute 50 cents if they were interested in participating. The proceeds of that fundraising effort were used to hire an actuarial firm to draft the legislation that culminated in the creation of MOSERS. In September 1957, MOSERS was established under an act of the 69th General Assembly (HB 188).

This *Summary Annual Financial Report* is derived from the information contained in MOSERS' *Comprehensive Annual Financial Report* (CAFR) but does not include all funds administered by MOSERS or certain other information required for conformity with Generally Accepted Accounting Principles (GAAP). MOSERS' financial statements are produced in conformity with GAAP. Contact MOSERS to request a copy of the CAFR, or explore it on our website at www.mosers.org. To request an alternative format, please contact MOSERS at (573) 632-6100 or (800) 827-1063. MOSERS is an equal opportunity employer.

It is my pleasure to present MOSERS' *Summary Annual Financial Report* which provides a brief overview of our financial results during fiscal year 2017, and additionally serves to provide useful measurements for the evaluation of our programs.

This year's report recognizes MOSERS 60th Anniversary and features highlights instrumental in the growth and sustainability of the pension system over the last six decades.

MOSERS' staff facilitates the varying components of the retirement process for more than 116,000 active, terminated-vested, and retired members and beneficiaries. The process often spans several decades from the member's initial employment to benefit payments throughout retirement. Our day-to-day interaction with the MOSERS membership is one of the most rewarding aspects of this industry.

As the spotlight continues to shine on public pensions, it is important to remember the genesis of the MOSERS retirement benefit as a component of the employer's total compensation package to recruit and retain quality employees. With the average MOSERS retirement benefit being \$15,700 annually, an employee, after a career of state service, receives this element of deferred compensation, which contributes to the societal benefit of a dignified retirement. It is our honor to be a part of this process and work for this great state and Missouri's public employees.



John Watson
Executive Director



John Watson
Executive Director

MOSERS' first Handbook of Information, dated July 1, 1958 states

"A member in the state service may retire at his option with the consent

of his employer if he has attained the age of 60 years and having had at least 20 years of creditable service." The maximum annual salary on which a member's benefits were calculated was initially \$7,500. In October 1967, the maximum annual salary increased to \$15,000.

During Fiscal Year 1967, MOSERS paid \$1.47 million in benefits to such members.

1967

Dear Members:

On behalf of the board of trustees, I am pleased to present the MOSERS *Summary Annual Financial Report* for the fiscal year ended June 30, 2017. With 2017 being the 60th anniversary of MOSERS, it is more evident than ever that the data and message contained in this report echoes all that is MOSERS as an organization: transparent, informative, educational, and enduring.

During FY17, the MOSERS Board of Trustees confirmed its commitment to sound financial practices by adopting more conservative investment return assumptions to reflect capital market expectations. While this movement in assumptions will result in higher annual employer contribution requirements in the short-term, it is the board's expectation that these changes will strengthen MOSERS' financial position and will ultimately enhance the retirement security of our members.

Public pension plans continue to experience heightened attention and MOSERS is no exception. As news articles continue to highlight important, and sometimes difficult, decisions being made by members of the General Assembly, the Governor, and the members of the MOSERS Board of Trustees, it is important to emphasize that state employee pensions are secure and MOSERS is well positioned to continue in its mission to "advance the financial security of its members."

In Missouri, the Governor and the legislature have demonstrated a commitment to contributing the full amount needed each year to pay promised benefits to retirees. The commitment from the state has been consistent since MOSERS' inception – and was evident this year as the board-certified contribution rate was fully funded for FY18.

As is often the case after an election cycle, the board experienced significant turnover this year. On behalf of the board and staff, I would like to recognize and thank State Treasurer Clint Zweifel, Senator Joe Keaveny, Representative Caleb Jones, Representative Mike Leara, and Commissioner Doug Nelson for their hard work and dedication while serving as trustees to the system. Five new trustees were added to the board during FY17 with those being State Treasurer Eric Schmitt, Senator Gina Walsh, Representative Mike Bernskoetter, Representative John Wiemann, and Commissioner Sarah Steelman. Trustees devote many hours in fulfilling their fiduciary duties and our new trustees have been active contributors to board discussion and decisions.

I wish to thank the board for their contributions this year as well as the staff for maintaining a high level of expertise and professionalism. I also wish to express my appreciation to you, our members, for your public service to this great state and your dedication and commitment to the citizens of Missouri. If you ever have any questions, please contact us at MOSERS, P.O. Box 209, Jefferson City, Missouri 65102, call us at (800) 827-1063, or visit our website at www.mosers.org.

Sincerely,



Shannon Owens, Chairwoman – Board of Trustees



Shannon Owens
Board Chairwoman

As news articles continue to highlight important, and sometimes difficult, decisions being made by members of the General Assembly, the Governor, and the members of the MOSERS Board of Trustees, it is important to emphasize that state employee pensions are secure and MOSERS is well positioned to continue in its mission to "advance the financial security of its members."

MISSION

MOSERS exists to advance the financial security of its members.

VISION

We endeavor to:

Exceed customer expectations
Educate stakeholders
Ensure sound investment practices
Encourage responsible funding of the plan through a commitment to Excellence. Always.

VALUES

Quality • Respect • Integrity
Openness • Accountability



1977

In 1975, the multiplier used for calculating benefits was increased to 1.25% (originally, it was 5/6 of 1% in 1957). By 1977, the average monthly benefit payment was \$108 (\$1,294 per year). MOSERS paid a total of \$8.23 million to 6,361 retired workers in 1977.

Summary Comparative Financial Statements

The following schedules present *Summary Comparative Financial Statements* of the pension trust funds for FY17 and FY16. The *Summary Comparative Statements of Fiduciary Net Position* are summaries of what MOSERS owns and owes as of the end of the fiscal year. The *Summary Comparative Statements of Changes in Fiduciary Net Position* show financial activity occurring during the fiscal year and summarize the flow of money in and out of the fund during the year. The primary uses of MOSERS' assets include the payment of promised benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the system.

Pension Trust Funds | Summary Comparative Statements of Fiduciary Net Position

	As of June 30, 2017	As of June 30, 2016	Amount of Change	Percentage Change
Cash and short-term investments	\$ 2,417,955,050	\$ 2,454,419,406	\$ (36,464,356)	(1.49)%
Receivables	43,498,874	89,911,461	(46,412,587)	(51.62)
Investments	9,018,590,792	9,349,306,746	(330,715,954)	(3.54)
Invested securities lending collateral	0	14,258,587	(14,258,587)	(100.00)
Net capital assets	3,316,060	3,541,901	(225,841)	(6.38)
Other assets	105,911	68,128	37,783	55.46
Total assets	11,483,466,687	11,911,506,229	(428,039,542)	(3.59)
Administrative expense payables	2,434,501	2,419,569	14,932	0.62
Investment purchase payables	10,165,707	36,690,153	(26,524,446)	(72.29)
Securities lending collateral	0	14,940,141	(14,940,141)	(100.00)
Other liabilities	9,470,802	10,083,285	(612,483)	(6.07)
Obligations under repurchase agreements	3,373,773,555	3,601,461,597	(227,688,042)	(6.32)
MOSERS investment portfolio liability (MIP)	4,628,883	4,693,919	(65,036)	(1.39)
Total liabilities	3,400,473,448	3,670,288,664	(269,815,216)	(7.35)
Net positions restricted for pensions	\$ 8,082,993,239	\$ 8,241,217,565	\$(158,224,326)	(1.92)

Pension Trust Funds | Summary Comparative Statements of Changes in Fiduciary Net Position

	Year Ended June 30, 2017	Year Ended June 30, 2016	Amount of Change	Percentage Change
Contributions	\$ 401,359,185	\$ 390,869,615	\$ 10,489,570	2.68%
Investment income – investing activities	276,722,915	1,213,744	275,509,171	22,699.12
Investment income (loss) – securities lending activities	21,896	(49)	21,945	44,785.71
Miscellaneous income	530,988	554,655	(23,667)	(4.27)
Total additions	678,634,984	392,637,965	285,997,019	72.84
Benefits	821,280,165	783,420,118	37,860,047	4.83
Service transfers and refunds	6,669,417	6,880,099	(210,682)	(3.06)
Administrative expenses	8,909,728	8,626,358	283,370	3.28
Total deductions	836,859,310	798,926,575	37,932,735	4.75
Net (decrease)	(158,224,326)	(406,288,610)	248,064,284	61.06
Net positions beginning of year	8,241,217,565	8,647,506,175	(406,288,610)	(4.70)
Net positions restricted for pensions	\$8,082,993,239	\$8,241,217,565	\$(158,224,326)	(1.92)

Investment Return

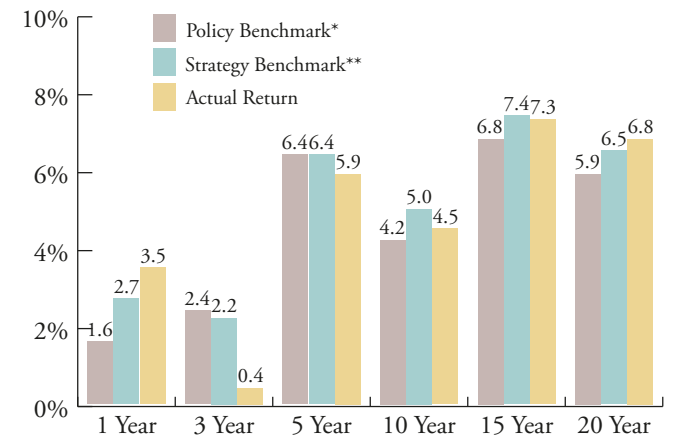
As of June 30, 2017, the MOSERS investment fund had total net assets of \$8.1 billion. MOSERS' investments generated a time-weighted return of 3.5%, net of fees, for FY17. The total fund return exceeded the 1-year policy benchmark of 1.6%. This additional 1.9% investment return produced \$152 million over what would have been earned if the fund had been invested passively in the policy benchmark.

Comparison of the total return to the policy benchmark reflects the total value added or detracted by the CIO through strategic and manager implementation decisions. Value is added when the total fund return exceeds the policy benchmark return. The total fund 1-, 10-, 15-, and 20-year actual performance over performed its policy benchmark by 1.9%, 0.3%, 0.5% and 0.9% with the actual 3- and 5-year returns trailing the policy benchmarks by 2.0% and 0.5%, respectively, as reflected in the *Total Fund Actual Return vs. Benchmark Returns* chart above.

Investment Risk

Market volatility is what investors traditionally consider to be the risk of investing. To protect against this risk, the MOSERS investment portfolio is diversified across a myriad of asset classes and investment strategies to mitigate the potential impact of negative economic circumstances. The *Total Fund Allocation* chart below reflects the actual percentage of the total investment portfolio by specific asset class at June 30, 2017. This asset allocation is built on the belief that diversification is critical in achieving consistent, long-term, risk-adjusted investment returns.

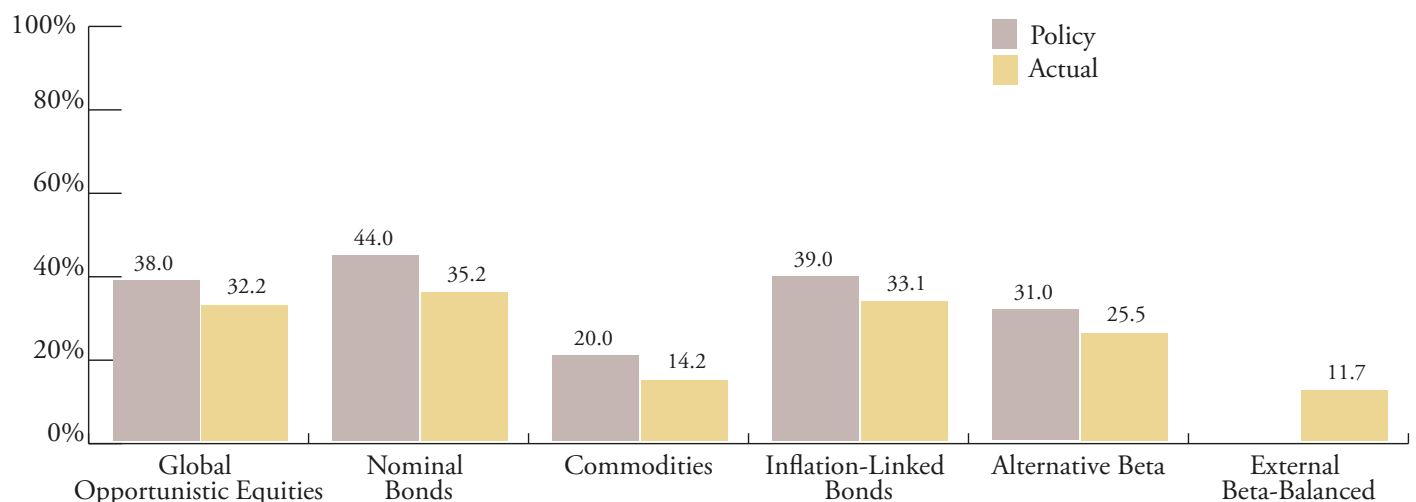
Total Fund Actual Return vs. Benchmark Return



* As of June 30, 2017, the total fund policy benchmark was comprised of the following components: 38% MSCI ACWI Net +.75%, 44% Barclays Long Treasuries, 20% S&P GSCI/BCOM, 39% Barclays U.S. TIPS 1-10 YR, and 31% AQR Delta. All policy return components are adjusted for financing cost associated with the beta-balanced program. This program did not begin until September 2012.

** As of June 30, 2017, the strategy benchmark was comprised of the following components: 39.3% total opportunistic global equities strategy, 38.5% total nominal bonds strategy, 16.2% total commodities strategy, 37.6% total inflation-linked bonds strategy, and 29.2% total alternative beta strategy. All strategy return components are adjusted for financing cost associated with the beta-balanced program. This program did not begin until September 2012.

Total Fund Allocation | Policy vs. Actual (As a Percentage of the Total Fund)



MOSERS' first investment transaction occurred in 1957 when a single outside advisor placed \$100,000 in a 90-day U.S. Treasury Bill on behalf of plan participants. By 1987, MOSERS' total investments exceeded \$1 billion. This is a notable accomplishment as it took nearly 30 years to break this mark.

1987

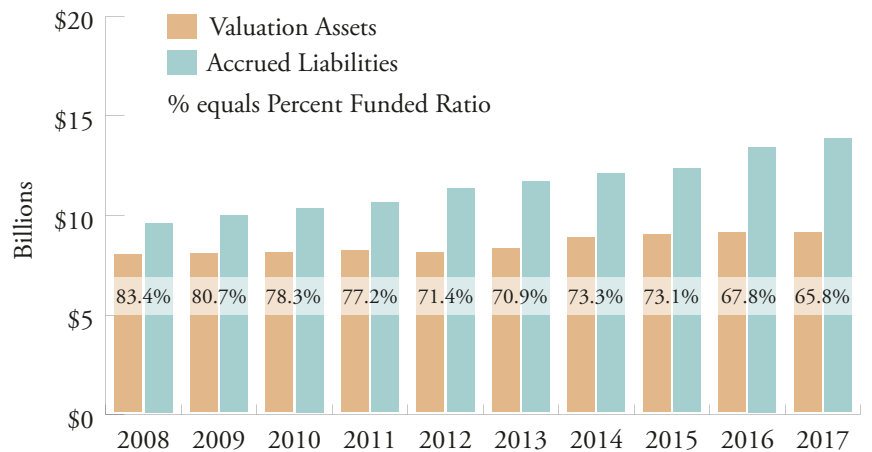
Retirement Funding

Your retirement benefits are funded by contributions from the state of Missouri and by investment income (and by your contributions, if you are a member of the MSEP 2011 or the Judicial Plan 2011). In order to ensure your benefits are available to you, MOSERS contracts with an outside actuarial firm to perform an annual valuation which determines the funded status of the plans at year-end and the contribution rates needed to adequately fund the system in the future. The percentages in the bar chart indicate the extent to which the system was funded as of a given year.

The state contributes the actuarially determined contribution that, when combined with present assets and future investment returns, will be sufficient to meet the present and future financial obligations of the retirement system.

Through a history of reasonable benefit levels, mandatory participation, actuarially determined employer contributions, and professionally managed investments, MOSERS benefits continue to be secure.

Valuation Assets as a Percent of Liabilities | All Plans Combined



Summary of Member Data

June 30, 2017	MSEP*	Judicial Plan
Active Members		
Average age	45.4	56.6
Average years of service	11.0	11.8
Average annual salary	\$39,705	\$141,832
Retired Members/Beneficiaries		
Average age	70.1	75.8
Average annual benefit	\$15,253	\$61,945
Total Membership		
Active	48,910	410
Terminated-vested	19,578	25
Retired/Beneficiaries	46,560	559

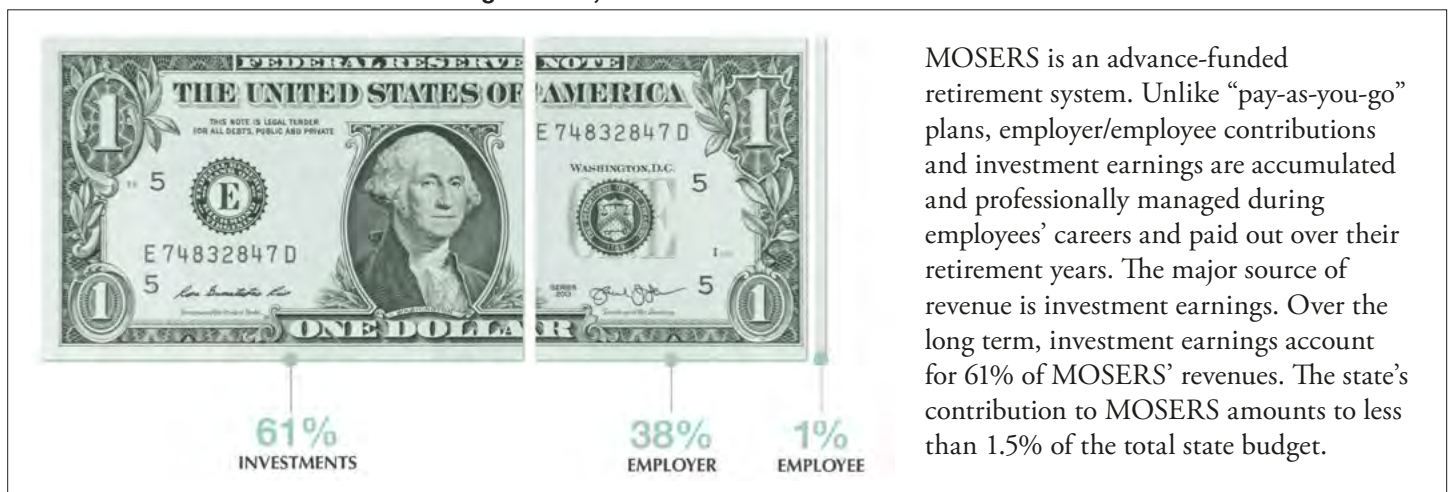
* Includes members in both the MSEP and the MSEP 2000.

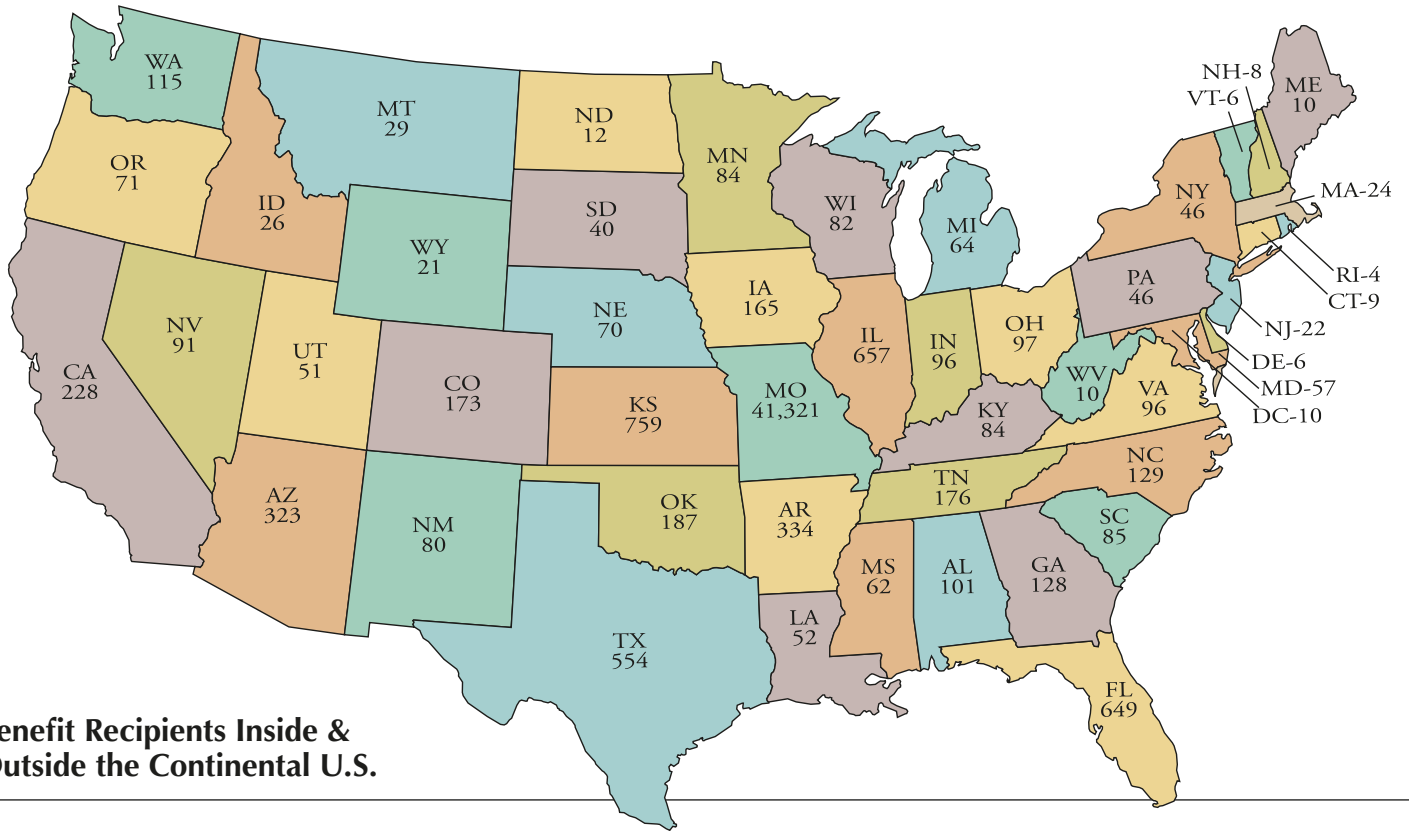
Members Retired During Fiscal Year Ended June 30, 2017

Years Credited Service by Category	Average Monthly Benefit	Average Final Average Salary	Number of Retirees
<5	\$309	\$4,658	9
5-10	339	2,731	518
10-15	562	2,849	508
15-20	946	3,426	459
20-25	1,365	3,641	440
25-30	1,860	4,030	477
30+	2,391	4,291	239
All Members*	1,116	3,406	2,650

* Includes members in both the MSEP and the MSEP 2000, but does not include members in the Judicial Plan.

Plan Revenue Over 20-Year Period Ending June 30, 2017





Benefit Recipients Inside & Outside the Continental U.S.

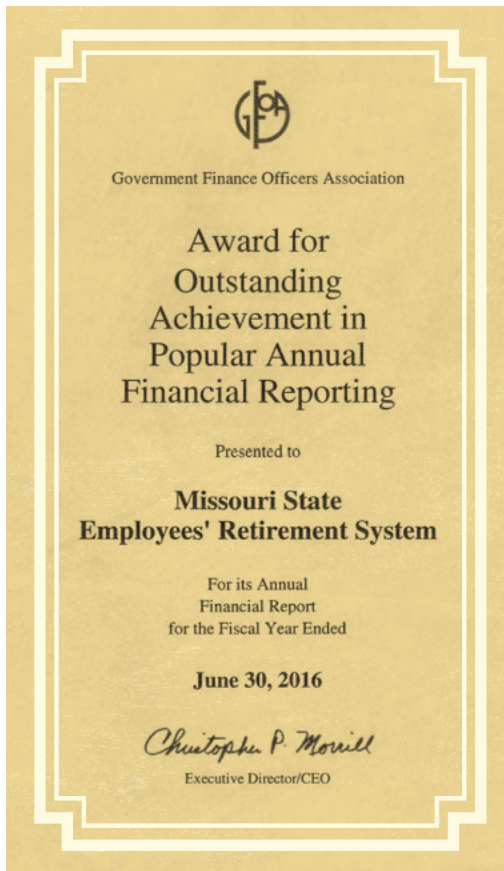
17	Alaska	1	Czech Republic	2	Italy	1	Sweden
10	Hawaii	1	Ecuador	1	Laticia	1	Thailand
1	Army Post Office	1	Germany	1	Mexico	1	The Netherlands
1	Argentina	1	Guam	1	Marshall Islands	1	United Arab Emirates
3	Australia	1	India	1	P. R. China	3	United Kingdom
1	Brazil	2	Ireland	2	Philippines	4	Virgin Islands
14	Canada	2	Israel	1	Sri Lanka		
1	Costa Rica						
1	Croatia						

1997

Construction of a new office building was initiated in 1997 during MOSERS' 40th year of operation and was completed in February of 1998. Having grown from an initial staff of five employees in 1958 to a staff of nearly 60, the new facility was designed to welcome valued members, enhance communication and technology, and facilitate productivity including the maintenance of records for nearly 80,000 active, retired, and terminated-vested members.

Initially, 17,513 employees became members of MOSERS upon the system's inception in 1957. By 2007, MOSERS was serving 100,470 members (54,763 actively employed; 29,129 retired/beneficiaries; 16,578 terminated-vested). Additionally, MOSERS benefit recipients were located in all 50 states and Puerto Rico as well as in at least 14 other countries.

2007



Professional Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its summary annual report for the fiscal year ended June 30, 2016.

This prestigious national award recognizes popular reports for creativity, presentation, understandability, and reader appeal and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to the GFOA for evaluation.

With 60 years of experience, MOSERS has matured in its primary role of providing financial security to its members. MOSERS' net assets now total \$8.1 billion and the system's membership has increased to more than 116,000. In FY17, MOSERS paid benefits to 46,560 retirees and beneficiaries whose average monthly benefit was \$1,271 (\$15,253 per year).^{*} Nearly 90% of the \$734 million MOSERS paid in benefits was to Missouri residents.^{**}

2017

^{*} The average benefit per year includes retirement, disability, and survivor payments.

^{**} Excludes BackDROP and lump-sum benefits.

Missouri State Employees' Retirement System

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